

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Priority Mail
Priority Mail Contract 38

Docket No. MC2012-7

Competitive Product Prices
Priority Mail Contract 38 (MC2012-7)
Negotiated Service Agreement

Docket No. CP2012-15

PUBLIC REPRESENTATIVE COMMENTS

(January 31, 2012)

Introduction

In response to Order 1163,¹ the Public Representative hereby comments on the January 19, 2012 United States Postal Service Request to Add Priority Mail Contract 38 to the Competitive Product List (Request).

The Public Representative has accessed and reviewed all public and nonpublic materials submitted by the United States Postal Service. Because this NSA employs the same underlying Governors' Decision 09-6 costing formula, the analysis is virtually the same. Although, the contract is expected to meet the pertinent elements of 39 U.S.C. 3633(a), the Public Representative has a minor issue that is discussed below.

Discussion

In Governors' Decision No. 09-6, the Postal Service establishes minimum and maximum cost coverages for Priority Mail Contracts. The Postal Service's supporting worksheets indicate that the instant contract's cost coverage is expected to fall within the minimum and maximum range.

¹ Commission Order 1163, Notice and Order Concerning Addition of Priority Mail Contract 38 Negotiated Service Agreement to the Competitive Product List, January 19, 2012.

Potential for Reduced Cost Coverage. The contract specifies that the Postal Service will provide co-branded Priority Mail packaging with the contract partner “free of charge”. See Attachment B to the Postal Service Request. However, the Postal Service does not include any additional costs associated with providing the customized packaging to the contract partner. As the Commission has discussed previously,

In evaluating costs under a prospective contract compared to the average, the Postal Service should take into account all departures from average costs that may be due to services provided under the contract.

Order No. 138 at 6-7. Therefore, any time the Postal Service provides additional services to a contract partner, the Postal Service should provide an estimate of the additional costs associated with those services. The Public Representative suggests that the Commission require the Postal Service to provide updated contract workpapers that reflect the additional costs of the customized packaging associated with the instant contract.

After reviewing the supporting worksheets, it is unlikely that the inclusion of additional costs associated with customized packaging will result in the contract having a cost coverage that does not meet the requirements of 39 U.S.C. 3633(a). However, it remains important that the Postal Service include all adjustments to costs, not only those adjustments that reduce the contract partner’s expected costs. In practice, the Postal Service should include all potential cost adjustments that reflect specific contract terms to ensure the most accurate estimate of the contract’s cost coverage is reported.

Conclusion

After review of the supporting workpapers the Public Representative finds that the instant contract is expected to comport with each of the requirements of 39 CFR 3015.7(c) and 39 U.S.C. 3633(a). For a competitive products pricing schedule not of

general applicability,² the Postal Service must demonstrate that the contract will be in compliance with 39 U.S.C. 3633(a): The instant contract should not allow market dominant products to subsidize competitive products, it should ensure that each competitive product covers its attributable costs; and it should enable competitive products as a whole to cover their costs (contributing a minimum of 5.5 percent to the Postal Service's total institutional costs). The Public Representative recommends the approval of this contract, but suggests that the Postal Service file updated supporting workpapers that reflect all costs that reflect the instant contract's terms.

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For Docket Nos.
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² See 39 CFR 3015.5.